

TUCSON SUPPLEMENTAL RETIREMENT SYSTEM BOARD OF TRUSTEES

Meeting Minutes from Friday, October 26, 2007, 8:15 a.m., Arizona Inn

Members Present: Brian Bjorndahl, Chairman
John Moore, City Manager's Appointee
Cindy Bezaury, Human Resources Director
Jim Cameron, Finance Director
John O'Hare, Employee Representative
Gage Andrews, Employee Representative
Paul Miner, Retiree Representative

Staff Present: Frank Kern, Board Counsel
Joe Ladenburg, Deputy Finance Director
Allan Bentkowski, Investment Manager
Michael Hermanson, Retirement Manager
Doris Rentschler, Finance Analyst
Claire Beaubien, Administrative Assistant
Claudia Proios, Administrative Assistant

Guests Present: John Behrens, Finance Analyst, Investments
Mark Klimek, Hewitt Investment Group
Rob Van den Brink, Hewitt Investment Group
Claudia Proios, Administrative Assistant
Leslie Thompson, Gabriel, Roeder, Smith
Rick Roeder, Gabriel, Roeder, Smith
Marie Nemerguth, City Manager's Office
Brian Clarke, Macquarie Infrastructures
Scott Roney, PIMCO Investments
Jesse Pricer, PIMCO Investments
Jean Wilkins, CTRA Retiree Representative

Chairman Brian Bjorndahl called the meeting to order at 8:16 a.m.

A. Investment Activity / Status Report

1. Hewitt Associates – TSRS performance update for September 2007. Mark Klimek began his presentation by commenting that a first glance at this quarter may look like a typical quarter, as the overall performance was good, posting a composite return 2.02%. However, what happened during the quarter was anything but typical. In July, the subprime loan issue caused a collapse in the mortgage lending sector and a corresponding ripple effect for hedge funds. This situation continued into August with returns dropping below normal. In response to this, on September 18th, the Federal Reserve Bank lowered the fed funds lending rate policy by 50 basis points. This resulted in a huge rally during the last two weeks of September. Best performing sector was energy, due to oil prices rising significantly and the weakest area of the market was financials. International allocations are the stars of the portfolio with a 2.18% return.
2. Comments on investment manager performance - Mark Klimek reviewed the various managers in the portfolio on a quarterly basis. PIMCO StocksPLUS had a return of 2.93% vs. 2.04% for their benchmark. Barclays Alpha Tilts lagged the benchmark, primarily because their quantitative style is intentionally out of synch with the benchmarks. TCW Concentrated Core posted strong returns in September, outperforming the Russell 1000 benchmark at 5.46% vs. 4.21%. Mark reminded the Board that a decision had been made to terminate TCW Concentrated Core and

replace them with Friess Associates. Friess returned 8.5% for the third quarter. Year-to-date returns for TCW showed a 2.5% increase over the benchmark while Friess had an 8.5% increase over the benchmark. Mark commented that it appears to be a good decision to hire Friess effective November 30, 2007. Mark continued reviewing TCW Value Opportunities, which had a minor underperformance.

For the quarter, Fidelity Small Cap trailed the benchmark by 13 basis points; for the one year period ending 9/30/07 they have outperformed the benchmark by 6.18%. Causeway trailed the benchmark during the quarter and for the year ending 3rd quarter at 3.26% below the benchmark; however, still a strong performance with a return of 21.61%. Julius Baer also lagged the benchmark during the quarter but year to date they outperformed the benchmark by 3.23%. Fixed income managers are doing well, all of the real estate managers outperformed the benchmark, also. The Plan's composite return for the quarter is marginally underperforming by 15 basis points at 2.02%. For the one year period, the composite is outperforming by 49 basis as of September 30, 2007.

Rob Van Den Brink briefly reported that the commercial sector of real estate has not seen much of fallout; however, buying and selling has slowed a somewhat, due to the credit market shrinking availability of funds. Our TSRS real estate portfolio managers like this type of market because they have no problems obtaining the necessary capital or borrowing money to buy the right properties.

3. TSRS portfolio composition, transactions and individual investments, securities lending summary thru 8/31/07 and performance by manager for the quarter ending 9/30/07 - Allan Bentkowski reported that as of September 30, all equity managers are within range or close to their allocation targets. Total equity is 37.1% versus 38% for the target; Midcap and small cap is 10.3% versus 11% for the target; International equities are at 15.5% versus 15.0% for the target. Bonds are at 28.2% actual versus 28% for the target; Real Estate is at 8.7% versus a target of 8.0%. Total portfolio value is \$708 million. On October 24, the fund value was \$ 697 million. However, during the month of October, the portfolio set a record high of \$714 million. Allan reported that during the fiscal year ending June 30, 2007, additional liquidity was needed in the amount of \$17.5 million to fund End of Service, Library transfers and regular retirements. Another \$5 million was transferred out of the international equity accounts on October 12 for the internal operational fund. Gage asked Allan if there was a trigger where a transfer or rebalancing is done. Allan replied that there was no specific trigger. The trigger occurs with routing monitoring of the market trends and the target ranges. When allocations get outside the target ranges, Allan confers with Mark and Rob and a consensus is met regarding allocation levels.

Meeting adjourned for a break at 10:14 a.m., resumed at 10:30 a.m.

4. Discussion of asset liability study with actuarial commentary on stochastic, deterministic rate assumptions - Mike Hermanson briefed the Board on the background for this item: every 5-7 years, an asset liability study is completed, involving work done by our investment consultants (Hewitt) and our actuary (GRS). The last study done for TSRS was five years ago, so it is time to get this going again. Among staff concerns are the fund's ability to have sufficient liquidity with a maturing pension plan; where cash outflows from benefits paid are greater than the amount of employer/ee contributions received by the system. Potential negative cash flows could make it difficult to maintain asset allocation standards for the portfolio or require liquidations of long term investments before they are fully matured. Rob Van Den Brink stated the main purpose of the asset liability study is to structure the portfolio to achieve returns of at least 7.75% without taking on additional exposures to risk. With five year smoothing and 15 year amortization, there is some ability to take on interim volatility and equity type risks in order to achieve the 7.75% return. Rob said that it is likely an asset liability study will reveal no changes to the asset allocations because there is still plenty of liquidity in the portfolio. Also, it remains important to continue diversification in the TSRS portfolio and this has been accomplished in a variety of ways. For example, five years ago the portfolio had only one real estate manager; additionally, the Board has discussed hedge funds, infrastructure and may be interested in considering commodities at a future date.

Allan asked Rob whether a market downturn would cause any liquidity concerns. Rob responded that the idea of diversification is to insulate the entire portfolio from an overall negative return. Gage Andrews asked whether the portfolio

investment policy should be changed if the funded ratio drops below a certain level, such as 77%. Leslie replied that the fund wouldn't be in trouble if the ratio dropped below a certain point.

The funded ratio isn't really a good measure of the fund being in trouble; if the required contributions aren't being made to the fund would be a worse problem. No action taken.

- B. Annual manager review and market outlook for the Pacific Investment Management Company (PIMCO) –Fixed Income Account – 1. Scott Roney explained PIMCO's prior year strategy, expecting the economy to go through tough times because the housing market was slowing. At that time, PIMCO believed that the Federal Reserve would soon ease rates to help the overall economy and the housing market in particular. On September 18th this year, it finally happened and a rebound has been occurring. Thus far this year, the fixed income account has yielded strong performance with 3rd quarter returns at 4.03%, 1.8% above the benchmark; performance for the one year ending 9/30/07 is 6.95% versus 5.56% for the benchmark. Since inception, their returns have been at 7.0%, easily topping the 5.68% benchmark. Scott reported that as of September, 2007, the TSRS market value of this account was \$130,423,430.

Scott's colleague, Jesse Pricer, continued the report. High yields were among the top performing sectors in the bond market during the first six months, in the third quarter things changed. During July/August hedge funds, investment banks and other financial intermediaries announced break downs and losses from subprime mortgages, so yields dropped dramatically. Treasuries outperformed all sectors for the quarter. Following the Fed's rate cut, Mortgage Backed Securities (MBS) outperformed all other sectors. The subprime collapse affected liquidity and the demand for lower rated asset backed securities (abs) dried up. However, PIMCO's cyclical outlook anticipated subprime contagion having broader economic impact. Dollar-based international sectors rallied during the quarter after a slower first half of the year. Locally-dominated debt and currencies continued to highlight the emerging markets growth story. PIMCO had emphasis on short-dated maturities because of their strong conviction that the US yield curve would steepen, which it did in the third quarter. Jesse commented that PIMCO has been underweight in credit and high yield year-to-date. But, during the third quarter, PIMCO reduced their underweight in those securities after the spread widened out substantially.

Scott provided an overview of PIMCO's economic outlook. The export sector has propped up economic growth, mainly due to the falling dollar. PIMCO believes the Federal Reserve will continue cycle of easing rates. Emerging markets continue to build foreign reserves. Vulnerable property markets in Europe and U.K. will pressure central banks to end tightening campaigns. Global risk aversion heightens deflationary pressures in Japan. Weakness in employment continues while inflation remains tame. Overall housing still has quite a distance to go to recover from the recession which will feed into broader economic slowdown. Scott remarked that they are positioned for cyclical downturn and market opportunities. Their strategies include overweight in short maturities to capitalize on steeper yield curves. They are maintaining duration modestly above benchmark, with emphasis on position of the curve. PIMCO is increasing their credit exposure while adjusting for risks of underlying issuers.

Rob Van Den Brink asked Scott if they are seeing any trends in the corporate sector that are different from the public sector. Scott stated he doesn't see much difference in either sector. Rob asked if the corporate sector had a different strategy than the public sector. Scott replied corporate sectors are combining equity and bond exposures to try to hedge some of the interest rate pressure and to offset any liabilities.

- B. 2. StocksPlus Account - Scott reminded the Board that PIMCO's strategy for the StocksPlus product is to position the portfolio to benefit from continued cyclical weakness led by global market turmoil. Their emphasis is on shorter maturities in the U.S. that are expected to experience price gains as yields decline amid further Federal Reserve easing. When that occurs, strategies are employed to advantage short positions in longer-term instruments to benefit from rising longer-term yields and a steepening yield curve trend. Scott mentioned that their favorite emerging market country at this time is Brazil in which they are investing 2% of the portfolio. Brazil is viewed as investment grade for the upcoming **year and six months**. They also have 5% in corporate bonds.

Allan asked Scott if corporate spreads are expected to widen out in the next six months. Scott replied they will probably widen but they are not forecasting an overall spread. Mark asked Scott if there have been any personnel changes at PIMCO. Scott answered that Mohammed El Erian will rejoin PIMCO in 2008 as co-CEO and co-CIO; Mohammed was a driving force for the firm before he left to go to Harvard and has lost none of that charisma. Jesse added that Allan Greenspan had signed a consulting agreement with PIMCO for the coming three years.

C. Actuary Report – Gabriel, Roeder, Smith & Associates - Leslie Thompson, Rick Roeder

1. Results of Valuation Analysis for plan year ended June 30, 2007
 - a. General commentary on this year's valuation & review of sources for actuarial gains / losses
 - b. Recommended contribution rate for plan year beginning July 1, 2008
 - c. Discussion of progress on TSRS unfunded actuarial accrued liability
 - d. Actuarial Insights/comments/observations

1a. Chairman Bjorndahl welcomed Leslie Thompson, from Gabriel, Roeder Smith & Associates. Leslie began her presentation by remarking that the overall theme for this year's valuation was one of "good news" for the fiscal period ending 6/30/07. This valuation was prepared using member demographics, financial data and actuarial assumptions and methods. The purpose of an annual valuation is to measure actuarial assets and liabilities and determine the future required contribution rate based on an assumed funding policy.

First, the changes in the contribution rate were discussed. The normal cost of the plan (the cost of the benefits that have accrued during the year) increased minimally for 2007. A minor increase was caused by the end of service program. However, the system's normal cost was very stable. The unfunded accrued liabilities decreased less than expected with a fixed amortization of a 15 year period. John O'Hare asked Leslie what the contribution rate would be if a 30 year amortization were used. Leslie answered that it would be probably drop the rate by around 2-3%. The required plan contribution for the 2008-9 plan year decreased from 20.21% to 19.47%. Therefore, Employer contributions are 19.47% minus member contributions. Leslie reported that the funded ratio (actuarial value of assets over the accrued liability of the plan) had also improved to 83.1% from 79.9% last year.

Leslie reviewed the components associated with changes in the accrued liability next, referring to the components included in the gain/loss report. Basically, this information measures how closely this years experiences matches assumptions established at the last experience study. The last TSRS experience study was for a five year period that ended June 30, 2003. The retiree mortality rate caused a loss during both 2006 and 2007, meaning that retirees are living longer than expected. The 2007 demographic loss of \$3,764,000 represents 50 basis points against the accrued liability. That amount is considered very small, making it a virtual match to the experience assumptions. Joe Ladenburg reported that he had analyzed the actuarial gain/loss history for the past ten years. Over the past ten years there has been an experience loss that totaled \$40,500,000; demonstrating that over a longer period of time the accumulated results can be very different than what is seen over just the past year or two.

Leslie reported that the number of active members increased by 79 from 3,247 to 3,326, representing a 2.4% increase. It is important to note that the transfer of librarians to ASRS was recognized in this

study, transferring both assets and liabilities. An early retirement incentive program was in force during the valuation period. While payroll for active members increased 2.2% during this period, the average pay for active members decreased .25% (resulting in a gain). The system realized a net increase in the number of service benefit or beneficiaries of 140 for this year, from 1,878 to 2,018. The average annual retiree benefit is \$19,764 compared to \$18,686 for 2006. And the average retiree age moved from 68.1 to 68.2, while the average age at retirement was 59.4, a pretty standard age for public sector retirement systems.

The plan's actuarial value is now at \$635 million, compared to \$588 million for 2006. The actuarial return was 11.27% in FY 2007, compared to 9.43% in FY 2006. The actuarial value is 91.2% of fair market value. \$61 million in deferred gains are not yet recognized from the four year smoothing period. In summary, Leslie reported that the unfunded accrued actuarial liability decreased by \$18.8 million. The annual recommended contribution rate for the fiscal year beginning July 1, 2008 for is 19.47%.

1b. Cindy Bezaury **moved, seconded by Gage Andrews**, to approve the actuary's annual recommended contribution rate at 19.47%. **Motion passed 7 to 0.**

Chairman Bjorndahl left the meeting at 9:51 a.m., turning the meeting over to Acting chair, John O'Hare.

2. Educational Topics presented by Leslie Thompson – Gabriel, Roeder, Smith & Associates

- a. Review of service purchase liability for transfer of library employees to Pima county - A request for an independent analysis of amounts transferred for a group of Library employees to ASRS was completed by GRS, based on sample data provided for transfers that had occurred this fiscal year. The estimated liability transferred to ASRS was \$7.7 million at a cost of \$8.9 million, or about 86% of the ASRS calculation. The difference could be attributed to a number of variables such as their permanent benefit increase, or recognition differences for early retirement benefits in those systems. Leslie Thompson explained that in order to obtain a more definitive answer, she would have to more thoroughly study exactly how ASRS does their calculations. John O'Hare inquired how much such a study would cost the Board. Leslie replied that it would cost approximately \$7,500 - \$10,000 for a complete study. Mike asked the Board whether such a study justify the expense by actually causing a change to the TSRS process currently being used. John O'Hare asked if the fund was gaining or losing on this transfer and how much was the gain or loss. Leslie replied that there appeared to be a loss, but because their exact actuarial methods and assumptions used for calculating service credits remains uncertain, she can't say yet if there is a gain or a loss. Doris Rentschler commented that the state statutes require TSRS to transfer an amount to ASRS for the actuarial present value of the liability incurred by crediting the member's service credits. TSRS does the same, we charge ASRS our actuarial present value of the liability for transfers to TSRS. A few years ago, when the service purchase model was redeveloped for our members, staff administratively adopted those same factors for ASRS (or any other) transfers. Doing so probably tripled our billing rate for transfers from ASRS. Cindy Bezaury commented that she would be interested in requesting the study by Gabriel Roeder Smith to determine that the calculations both in and out of ASRS and TSRS are accurate. Gage Andrews **motioned, seconded** by John O'Hare; that the Board invest the \$10,000 to obtain an actuarial determination of how transfers to/from ASRS are calculated. **Motion passed 7 to 0.**
- b. An analysis of this year's end of service program incentive and a separate analysis of capping the number of benefit accrual years was also completed. For the end of service program, Leslie summarized this program that was first initiated during August 2006. The valuation baseline used for these studies was set at of 6/30/06 since the study was done prior to the completion of the June 30, 2007 valuation. The end of service program added an actuarial liability of \$5.9m to the system assuming that all eligible persons enrolled in the program (a worst case scenario). The study of changing the TSRS program to limit a member's maximum number of accrual years to 32 indicated an actuarial liability increase of \$6.5m. Mike asked

Leslie how much different the End of Service Program liability would be if 6/30/07 baseline were used instead of the 6/30/06 data. Leslie replied that it would be lower due to the investment gains and other actuarial gains realized this year. John O'Hare remarked that people were not concerned so much with the regular End of Service program but they were concerned about the incentive program and the cost to the system. Leslie replied that the \$6,497,874 included the impact of both programs. John asked whether the liability could be broken down to show the true impact of both programs. Leslie answered they could be separated but the bulk of the cost of the program is in the regular End of Service program. Gage Andrews asked if the initial estimates could be compared to the actual numbers and reported to the Board. Leslie replied that she would be glad to provide that information. John asked Leslie how much the End of Service Incentive cost the system. Mike responded that the amounts paid out for the incentive alone amounted to less than \$2 million. John then asked how much the incentive program is costing the active employees. Joe Ladenburg replied that it appears that the cost would have resulted in increasing the contribution rate by 30 basis points had this information been known last year.

Chairman Bjorndahl returned 11:45 a.m.

D. Plan Design Considerations

1. Amendments to Section 22-34 membership relating to optional and mandatory membership in the system - Frank Kern overviewed the reason for the proposed amendment. Section 22-34 currently excludes full-time appointed officers, full-time employees in the offices of the Mayor and Council and full-time unclassified employees in the City Manager's office from mandatory participation in the pension system. These employees have the option to elect to participate in the pension plan if they choose, but the rest of the City's employees have no choice, with mandatory participation in the pension plan. The proposed amendment would allow new hires the opportunity to opt out of mandatory participation during their initial five years of employment. Cindy reported that this proposed amendment was at her request after a year of consultations with certain hiring managers across the City. Two significant trends are appearing: younger people being hired are not expected to spend their careers with the City, hiring on with the City to gain experience and then they move on with their career. In that sense, they are simply coming to the City for job experience, not for a pension. The second trend indicates people already retired from a previous job or from the military and are not coming to the City for a pension because they are already receiving a pension and have hired on to fill any benefit gaps created from the pensions or social security they are receiving. Cindy said that she believes it is time to look at other options to offer these two diverse groups of people.

Mike commented that the Retirement Office is chartered with helping people prepare for retirement. If we now tell employees they have an option to not participate in a program that provides them with a lifetime benefit, it really sends a mixed message; particularly with the negative savings environment that is so prevalent now. And it's likely to be detrimental to the system. On the other side of the spectrum, Mike recalled that many employees who have participated in the purchase of service program regret not participating at an earlier age when it wouldn't have cost them as much as it does when they are close to retirement. Doris Rentschler commented that the system currently benefits from those folks who leave and draw out their employee contributions plus interest. The employer funding that has been occurring during the years an employee participates in the system, remains and benefits the system. If the employer funding is missing because the employee is not participating at all, the actuarial required contribution would be driven up. Leslie replied that whenever you create a circumstance where the group becomes a "closed" group, even though it is "voluntary", as an actuary, following the GASB standards, the amortized unfunded ratio would be valued as a flat dollar amount with no more growth in payroll that would pay for the benefit. This would drive up the required contribution rate up approximately 3%. Paul Miner commented that the last thing young people think about when they are first hired is retirement. He said that at one point in the City's pension history, an employee had the option to join the system at age 25 and it became mandatory at age 30. He said that many young people elected not to participate when first hired but rued that decision many years

later and claimed that it was never explained, they didn't understand. The Board then changed the requirements of participation to the date of hire, thus eliminating any confusion.

Cindy commented that the young professionals want to have options. The proposed change would give a new hire the option to participate any time within the first five years of employment and make it mandatory at five years. Chairman Bjorndahl suggested this topic be put on a future agenda for further discussion.

Chairman Bjorndahl adjourned the meeting for lunch at 12:12 p.m.

2. Amendments to 22-53 end of service incentive - Frank explained the Board approved this amendment to allow the End of Service Incentive program during the fiscal year 2007. This amendment is a repeat of that temporary amendment for 2007-2008. Doris asked if this amendment would allow people who are currently in the End of Service the opportunity to opt in to the incentive program. Frank responded that the language was not written that way, but rather with an entry date subsequent to Mayor & Council's approval, but it could be modified any way the Board chooses. During discussion, a concern was raised over the cost of the prior year's program. Leslie commented that her calculations for the cost of the End of Service Incentive program and for the End of Service Program included all people who were eligible to retire whether they participated in the End of Service Program or not. Therefore, the costs to the plan for the people who enter the incentive program has already been calculated and incorporated into the costs and future funding rates of the system. There are 416 people who will be eligible to participate in the End of Service program as of June 30, 2008. In addition, approximately 282 people could become eligible if they purchased 5 years of permissive service credit. Jean Wilkins asked the Board if an incentive will be offered again. Cindy Bezaury replied that it will depend on how the City's work force changes in the future. Paul Miner voiced extreme concern with the program and advised that, in his opinion, this was going to hurt the fund. Paul said that he believed that it was not the function of the pension fund to encourage early retirement. Jim Cameron commented that the City has always provided funding for the system whenever there was a need and he believed there was a continuing commitment for the employer funding.

Gage Andrews voiced concerns about not having guidelines on what a prudent expenditure of the fund is and a sense of whether this action might be damaging to the funded ratio of the system. Frank Kern commented that all fiduciary responsibilities have been met when the Board asks Hewitt questions, when the actuary is brought in and asked questions regarding the cost and the changes to the funded ratio, etc. Frank concluded that voting in favor of this incentive would have no effect on the Board's fiduciary responsibilities. John O'Hare commented that the Board members who represent "two hats" should leave the non fiduciary "hat" at the door. Jim Cameron responded; as Finance Director, his responsibilities include being mindful of the overall health of the TSRS fund and he will make sure that the fund remains solvent. John O'Hare said that Leslie reported there was a cost associated with the incentive program. He wanted to know where the Board was going to draw the line taking money and then paying back later. Joe Ladenburg commented that the actuary has already accounted for the people who are eligible to participate in this incentive program in their valuation report (and incorporated this in the funding). The actuary determined that the overall program will drive the contribution rate up 30 basis points, a relatively insignificant amount. Chairman Bjorndahl commented that if this program helps the City to be able to pay the workforce and keep the financial concerns positive, then in the end this helps all retirees. Cindy Bezaury **moved, seconded** by John O'Hare to approve the recommendation to the Mayor & Council to approve the amendment to allow the End of Service Incentive program for a period within the 2007-2008 fiscal year. **Motion passed 5 to 2** (John O'Hare and Paul Miner voted nay). Frank stated a recommendation will be sent to Mayor & Council since it was approved by the Board. Assuming Mayor & Council approve the incentive program recommendation, a window will be created.

3. Adding 22-55 allows the purchase of permissive service credit - Frank Kern briefed everyone on purpose of this proposed addition of Section 22-55. Several years ago, the Board decided to allow the

purchase of prior government service. If an employee could document their prior governmental service time, they were allowed to purchase service credits with no upper limit on the number of years that could be purchased. This amendment allows the purchase of service credits up to five years (for any reason), without requiring documentation of prior government service time worked, as allowed by the pension protection act passed by Congress in late 2006. Adding this provision is not expected to be adverse (it is neutral) to the system, according to Leslie Thompson, GRS. Cindy Bezaury **moved, seconded** by Jim Cameron to approve Section 22-55 and for recommendation to Mayor & Council. **Motion passed 7 to 0.**

4. Amendments to 22-51 end of service program - Frank explained that this amendment is an operational amendment. Currently, an employee who wants to participate in the End of Service Program has to give a 90-day advanced notice before entering the program; this will be reduced to 10 days, if approved. Cindy Bezaury **motioned, seconded** by John O'Hare to approve the proposed amendment to 22-51. **Motion passed 7 to 0.**

5. Amendments to 22-50 Early Retirement Option – Frank stated that this amendment will temporarily (until September 30, 2008) change Section 22-50 to allow any combination of 75 points, instead of the age 55 with 20 years of service stipulated currently in Section 22-50 and suggests that an actuarially neutral table be employed for early retirement benefit reductions. John O'Hare **motioned, seconded** by Jim Cameron to approve the amendment of this section. **Motion passed 7 to 0.**

E. Consent Agenda

1. Approval of September 27, 2007 TSRS Board meeting minutes
2. Service & Disability retirement facts and figures report for October 2007
3. June 30, 2007 TSRS Financials

Cindy Bezaury **motioned, seconded** by Gage Andrews to ratify the regular retirees as listed in the Consent Agenda and to tentatively ratify the End of Service participants listed in the Consent Agenda with the proviso that the October 1st End of Service Program entrant be given the opportunity to select the six month alternative incentive if that ordinance is approved by Mayor & Council. **Motion passed 7 to 0.**

F. Disability Retirement Applications*

1. Karen Riggs - Cindy Bezaury **moved, seconded** by Gage Andrews, to deny the disability retirement. **Motion passed 7 to 0.**

G. Macquarie Securities, U.S.A. – Infrastructure Investing (Investment Education) - Brian Clarke presented information to the Board on Macquarie's strategy and approach to infrastructure investments. Macquarie is the largest investment bank in Australia. As the single largest foreign owners of U.S. real estate, Macquarie has unparalleled experience in sourcing, bidding and acquiring infrastructure assets and subsequently increasing the value of those assets through active management. They own 109 assets in 25 countries, with over \$49 billion invested in infrastructure assets and specialized assets. Their investor return is 19.8% across all vehicles and 21.2% across unlisted funds.

Infrastructure investing has three components associated with a return investment: cash flows, growth pattern and capital growth with some level of liquidity. Infrastructure is driven by the fundamental need to provide essential services to consumer, it has to be monopolistic. Infrastructure has to have a dominant market position, with a sustainable and predictable cash flow. It has to have a potential for long term capital growth, such as roads, tunnels, and bridges to car parks/parking garages and telecom systems. Toll roads typically display attractive infrastructure investment characteristics: predictable revenues, reliable traffic growth, and investment protection that typically generates reliable real revenue growth and low demand elasticity.

Brian concluded by stating that he would be happy to provide more information at a future meeting and possibly describe specific opportunities available to the Tucson Supplemental Retirement System.

- H. Hewitt Associates – Active vs. Passive Management of the TSRS portfolio (Investment Education) - Rob Van Den Brink briefly overviewed the differences between active versus passive management. Hewitt recommends that plan sponsors consider passive alternatives for highly efficient asset categories. In fact, the TSRS portfolio contains a large component of passively managed assets in the S&P 500 Index Fund. In addition, the PIMCO StocksPlus product and the Barclays AlphaTilt product are also passively managed assets added to the portfolio in recent years. Rob stated generally that it is more logical to use passive management in large cap equities than in small cap equities. In addition, passive management in the value space historically has produced more favorable results than compared to the growth space.

The average active international equity manager has had a volatile history outperforming the MSCI EAFE Index. The Non-U.S. Equity Managers outperform because of the inefficient markets. The average active fixed income manager has historically underperformed the LB Aggregate Index. Top-ranked fixed income managers tend to consistently stay near the top of the fixed income universe, making it easier to identify superior fixed income managers. This offers a justification for active management in fixed income. Fixed income is difficult to add value to a portfolio. One of the portfolio's managers, PIMCO, is a fixed income manager that has consistently added value to the portfolio. Passive management is difficult to do in most alternative asset categories, thus Hewitt doesn't recommend it. No further action.

I. Pension Database/Software - Progress Report

Mike Hermanson reported that the new pension database being designed by a unit of Gabriel Roeder Smith and Associates is approximately 85% complete and implementation is expected to occur the first part of next year. Once the system is engaged, it will feature an online self service pension benefit calculator that members can use to plan their retirement. The conversion phase and parallel testing phase has started and there remains one final conversion to be completed before the legacy system is terminated. Gage advised Mike that the new tax software will be arriving December 19th. It would be well for any plans for conversion, etc., be done prior to that date or let Gage know so that provisions can be made to accommodate planning for this in early 2008.

J. Report on Government Finance Officers Association, Committee on Retirement Benefits Administration

Recommended Practices written during 2007

1. Essential Design Elements of Defined Benefit Retirement Plans
2. Essential Design Elements of Hybrid Retirement Plans

Mike briefed the Board on his task force involvement with the CORBA committee over the past year, and on the recommended practices that this committee has written during 2007. 2 of the committee's recommended practices written in 2007 were included in the Board packet for their review.

K. Call to Audience

None heard.

L. Future Agenda Items

Response to the Iranian Divestiture issue
Julius Baer Manager Report – December, 2007
Causeway Manager Report – January, 2008
JPMorgan – February, 2008
Infrastructure Manager Interviews – Possibly February or March, 2008
Amendment to 22-49(d) to include military retirees
Post-retirement COLA study group recommendations

M. Adjournment

Cindy Bezaury **motioned, seconded** by Gage Andrews, to adjourn the meeting. **Motion passed 7 to 0.**

Approved:

Brian Bjorndahl, Chairman Date

Michael Hermanson, Date
Retirement Manager